



APPROVED MINUTES
APPROVED 11-19-12

**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

MONDAY, SEPTEMBER 17, 2012

**CITY HALL
KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251**

REGULAR MEETING

PRESENT: Councilwoman Suzanne Klapp, Chair
Councilman Robert Littlefield,
Councilwoman Linda Milhaven

STAFF: Dan Worth, Acting City Manager
Joyce Gilbride, Finance & Accounting Division
Tim Conner, Community & Economic Development Division
Paul Katsenes, Community & Economic Development Division
Gary Mascaro, Community & Economic Development Division
Derek Earle, Public Works Division
Kyla Anderson, City Auditor's Office
Cathleen Davis, City Auditor's Office
Sharron Walker, City Auditor's Office

GUESTS: Bill Gill, Chair, Environmental Quality Advisory Board
Thomas Dwyer, Vice-Chair, Environmental Quality Advisory Board

CALL TO ORDER

Chair Klapp called the meeting to order at 4:01 p.m. A formal roll call confirmed the presence of Committee Members as noted above.

1. Approval of Minutes, Regular Meeting, August 20, 2012

COUNCILWOMAN MILHAVEN MOVED TO APPROVE THE MINUTES OF THE AUGUST 20, 2012 REGULAR MEETING. COUNCILMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

2. Discussion and possible direction to staff regarding sunset review: Environmental Quality Advisory Board

City Auditor Sharron Walker noted that the Committee Members had been provided with the Board's annual report to City Council and supplementary information from the staff liaison. She reminded them that the Audit Committee is to review whether each board is serving its intended purpose, whether it should be maintained or modified, whether the purpose of the board has been served or is no longer required. The Committee is to recommend to City Council whether to continue or terminate the board. Ms. Walker added that the staff liaison, Tim Conner and two members of the Board, Bill Gill and Thomas Dwyer, were in attendance.

Councilwoman Milhaven said she had not seen the Board's original mission in the packet. Mr. Conner said he had not included it, but the City Charter states that the Board is to advise City Council on environmental issues.

Councilwoman Milhaven inquired about the Board's detailed work plans for the coming year. EQAB Chair Gill described the focus group approach used in selecting the water, energy and implementation of Green Building Code as topics for the coming year. Their action plan can be forwarded to Council after the Board's upcoming meeting this week.

Chair Klapp commended the Board on the thorough report they had provided and encouraged them to bring forward any information they wish to share with the Council. Chair Klapp noted she would recommend that EQAB continue.

COUNCILWOMAN MILHAVEN MADE A MOTION TO RECOMMEND TO CITY COUNCIL THAT THE ENVIRONMENTAL QUALITY ADVISORY BOARD CONTINUE.

In response to a question from Councilman Littlefield, Mr. Conner stated that EQAB provided recommendations to City Council in 2011 that they adopt the new International Green Construction Code.

COUNCILMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

The Committee Members thanked EQAB for the work the Board does. Chair Klapp said it is obvious that the Board Members are really committed to environmental issues. EQAB Vice-Chair Dwyer told them that Council is always welcome to come to the Board with any issues they would like them to research.

3. Discussion and possible direction to staff regarding report of Sunset Review Recommendations to City Council

Ms. Walker requested any feedback from the Committee because staff will be presenting the first sunset review recommendations to City Council.

Chair Klapp said the report looked fine, and they just need to add in the Committee's recommendation to Council.

Councilwoman Milhaven suggested adding in the formal charge of EQAB and including a little more detail about the Board's plans.

In reply to a question from Councilman Littlefield, Ms. Walker said she wants feedback about the draft report she has prepared such as whether it is too much information with including their full Sunset Review packets as attachments. She also confirmed that the draft Council report includes each Board's purpose. Councilwoman Milhaven noted that since the report and attachments are in electronic form, the length is not an issue. Committee members had no further suggestions for the draft Council report.

4. Discussion and possible direction to staff regarding Audit Report No. 1206, Utility Franchise Agreement Compliance

Ms. Cathleen Davis of the City Auditor's Office reviewed the audit report on the franchise agreement with APS and discussed the significant findings.

They found that APS customer data used in the calculation of Scottsdale franchise fee payments may not be complete and accurate. Approximately 14,000, or 38 percent, of the APS site addresses did not closely match the City's GIS records, so the APS site addresses could not be used for the analysis. The City's GIS staff plotted the APS site addresses using the latitude and longitude coordinates provided by APS. They found that 145 APS customer site addresses are included in calculating the City's franchise fee payments although they appear to be outside City limits. These errors indicate that some Scottsdale customers may also be coded as being in other cities.

Franchise fee payments are not reviewed periodically for accuracy or completeness. The City does not require APS to submit supporting information with its franchise fee payments. City staff oversight is thus limited to ensuring payments are received. In addition, a contract administrator has not been designated to ensure that compliance with contract terms is monitored.

Ms. Walker described the challenges the GIS staff had encountered, which made it impractical to attempt to match every APS site address to Scottsdale addresses. Councilwoman Milhaven pointed out that 145 errors out of 103,000 addresses is a miniscule margin of error, much of which can be attributed to data entry problems.

Ms. Walker further explained that in areas of Scottsdale where there appeared to be no APS customers, staff determined that the area is SRP's or reviewed the satellite map and determined that the areas are undeveloped and did not show houses or commercial.

The audit recommends establishing a process where periodically City staff would continue to work with APS staff to match the customer data.

Councilman Littlefield pointed out that 14,000 addresses did not match, according to the report. Ms. Walker said that number refers to the initial attempt to match the APS site addresses to Scottsdale addresses, which had to be abandoned due to data entry variations. They then used the mapping and also used the County Assessor's website to match some data.

Councilman Littlefield inquired about Scottsdale residences not included in the database for which the City is not receiving the payments to which it is entitled. Ms. Walker said staff cannot definitely determine if there are, but they believe the error rate to be low. Councilman Littlefield expressed concern about this. Councilwoman Milhaven noted that the 145 out of 103,000 is a small error rate. Ms. Walker said the franchise agreement does not have a specific City contract administrator. The City Manager and the City Treasurer have agreed to determine who should be responsible for monitoring the agreement on an ongoing basis.

Councilman Littlefield asked whether the franchise agreement requires APS to inform the City who the Scottsdale customers are. Ms. Walker said APS is required by the franchise agreement to provide the information to the City upon request. This was the first audit ever conducted of this agreement, so it was a little more challenging to get the data. Some data imperfections still need to be worked on. She concluded that the audit shows their accuracy is pretty good but not perfect.

Councilman Littlefield summarized that no one can say how much revenue the City is failing to receive. Ms. Walker agreed, but said that based on the results of the audit she believes it is quite small. Acting City Manager Dan Worth said staff is committed to working closely with APS to try to find all missing accounts, but noted that there can be a point of diminishing returns. Ms. Walker added that the revenue the City has been receiving for non-Scottsdale accounts is estimated around \$14,000 annually and the revenue for the missing customers would likely be similar in amount.

Chair Klapp asked how long it took the GIS staff to do the plotting. Ms. Davis said it was approximately an eight to 16-hour process each time.

5. Discussion and Possible Direction to Staff direction to staff regarding Audit Report No. 1210, Airport FBO Compliance.

Ms. Kyla Anderson of the City Auditor's Office presented the report. The auditors found that Airport staff does not effectively monitor compliance with certain contract terms and noted areas for improvement:

- The FBOs' rent and ABP fees were often not paid timely, based on the contract terms, in part because the City's invoices show an incorrect due date.

- Additionally, late fees which may have totaled more than \$210,000 over the last two years were not assessed.
- One FBO was given an \$8,000 rent discount when the Airport was closed for runway repairs. Their contract did not provide for such a discount and Council approval was not obtained.
- The contract administrator did not require compliance with contract terms related to getting prior approval of and reporting on subleased FBO office space. Both FBOs subleased space to non aeronautical businesses without prior written consent from the City.
- Some monthly and annual reporting requirements were not being enforced. Neither FBO filed the required annual certification stating that no default conditions existed. Additionally the insurance certificates on file with the Airport did not comply with the contract terms.
- Errors in the monthly reports provided by the FBOs with their ABP payments and errors on their annual reconciliations were not noticed and resolved by Airport staff. As a result, over three years these errors net to about \$18,000.

Ms. Anderson noted that Aviation Director Mr. Gary Mascaro was in attendance. Chair Klapp said the first step is to show the right due date on the invoices. She advised Mr. Katsenes that the management action plan was included in the packet. Mr. Katsenes confirmed that management is in agreement with all the recommendations in the report.

In reply to a query from Councilman Littlefield, Ms. Anderson said the FBOs will be paying the \$18,000 that has been identified. In response to a question from Councilwoman Milhaven, Ms. Walker agreed that the estimated \$200,000 of late fees was not expected to be collected. That estimate was to show the potential effect of not ensuring the City billed and collected payments timely according to contract terms.

6. Discussion and possible direction to staff regarding additional draft revisions of City Code related to the City Auditor

Ms. Walker explained the current draft contains a few minor revisions. A new section has been added to resolve an issue regarding information privacy related to taxes. She summarized that this new section states that when City Council approves the City Auditor's Audit Plan, if conducting an audit would entail looking at sales tax information, Council is implicitly giving approval for the auditors to access the tax information. This has been worked out with the City Attorney's Office.

She elaborated that when they were conducting the franchise agreement audit, staff asked for access to sales tax information, but Finance & Accounting staff felt it was not clear that this information could be provided. The City Attorney's Office recommends this provision to simplify future audits as necessary.

Chair Klapp said this seems reasonable and appropriate. Ms. Walker pointed out that the auditors' working papers are now confidential as a matter of law, which was not the case in the past. Taxpayer details would never be disclosed.

Councilman Littlefield urged that the word "timely" be inserted into paragraph 1 of the new section to replace "immediately," which was stricken. Ms. Walker agreed to ask the City Attorney's Office to make this change.

7. Discussion and possible direction to staff regarding status of FY 2012/13 Audit Plan and related proposed meeting calendar

Ms. Walker described some adjustments to the project list based on progress made in various audits. The Committee will need to meet in November, but not in October. The WestWorld report is to be presented in January 2013.

She reviewed the proposed meeting dates for 2013. As in the past, the plan is to meet on the third Monday of most months, with the exception of January and February when public holidays fall on that date and the meeting would be on the fourth Monday. It is possible the Committee will not need to meet in February 2013.

8. Discussion and possible direction to staff regarding agenda items for next Audit Committee meeting (November 19, 2012)

Ms. Walker stated that the Fuel Cost and Control audit report will be presented. She expects that the E-Verify Compliance report will be ready. The first quarter follow-up on previous audits and the third quarter taxpayer problem resolution officer report are also on the agenda.

She does not anticipate the need for a meeting in December. The next sunset review, the Historic Preservation Commission, will take place in January. The sunset review of the Human Relations Commission is scheduled for April 2013.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 4:42 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz.